

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC 9083

INFO ALL EC CAPITALS 784

AMEMBASSY BERN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

C O N F I D E N T I A L EC BRUSSELS 05471

E.O. 11652: ADS "DECLASSIFIED ON JANUARY 1, 1978"

TAGS: EFIN, EEC

SUBJECT: SWISS ENTRY INTO THE "MINI-SNAKE"--FRANCE RAISES A NEW
ISSUE

REFS: A. EC BRUSSELS 5415

B. EC BRUSSELS 5191

1. SUMMARY: AT THE MEETING OF THE EC "SNAKE" COUNTRIES ON
JUNE 16, FRENCH FINANCE MINISTER FOURCADE ASKED THAT
SWITZERLAND MODIFY ITS LAWS AFFECTING CAPITAL INFLOWS
BEFORE THE SWISS FRANC IS ASSOCIATED WITH THE SNAKE. THE
DUTCH OPPOSED SUCH A CONDITION AND, ALONG WITH THE FRG,
FAVORED PROMPT SWISS ASSOCIATION. THE SWISS ARE STILL
INCLINED TOWARD JOINING THE SNAKE, BUT ARE ADAMANTLY AGAINST
ANY REQUIREMENT THAT THEY CHANGE THEIR LAWS. AS
A RESULT, THE SWISS ARE LIKELY TO FACE TOUGH NEGOTIATIONS

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BEFORE THE EC AGREES TO THEIR ENTRY. END SUMMARY.

2. THE EC "SNAKE" COUNTRIES DISCUSSED THE RE-ENTRY OF THE FRENCH FRANC AT A MEETING WHICH PRECEDED THE JUNE 16 EC COUNCIL MEETING. THE SNAKE COUNTRIES FIRST AGREED TO THE MODIFICATIONS IN SNAKE OPERATIONS WHICH WERE REPORTED IN REF A. THE EC CENTRAL BANK GOVERNORS' AND MONETARY COMMITTEES HAD RECOMMENDED THESE CHANGES. (THE MISSION IS SENDING TO INTERESTED WASHINGTON AGENCIES A COPY OF THE CENTRAL BANK GOVERNORS' REPORT.) THE EC "SNAKE" COUNTRIES REPORTED TO THE COUNCIL THAT THEY CONCURRED IN THE GOVERNORS' RECOMMENDATIONS.

3. THE DISCUSSION OF THE "SNAKE" COUNTRIES THEN TURNED TO POSSIBLE SWISS ASSOCIATION WITH THE SNAKE. FRENCH FINANCE MINISTER FOURCADE EXPRESSED CONCERN THAT SWISS ENTRY INTO THE SNAKE MIGHT MAKE IT DIFFICULT FOR OTHER EC COUNTRIES TO RE-ENTER THE SNAKE. HE ADDED THAT THE SWISS FRANC WAS A SPECULATIVE CURRENCY WHICH WAS SUBJECT TO LARGE CAPITAL INFLOWS. FOR THIS REASON, FOURCADE SUGGESTED THAT THE SWISS SHOULD MAKE CHANGES IN THEIR LAWS AFFECTING CAPITAL INFLOWS BEFORE ENTERING THE SNAKE. FOURCADE DID NOT SPECIFY THE TYPE OF CHANGES THAT HE HAD IN MIND, BUT SWISS OFFICIALS HERE SPECULATE THAT FRANCE WOULD LIKE THE GOS TO CHANGE ITS BANKING SECRECY LAW SUCH AS LIMITING THE USE OF SECRET BANK ACCOUNTS. SWISS TAX LAWS MIGHT ALSO BE CHANGED TO MAKE TAX EVASION A CRIMINAL OFFENSE. SUCH MEASURES COULD POSSIBLY REDUCE CAPITAL FLOWS INTO SWITZERLAND AND THEREBY REDUCE UPWARD PRESSURE ON THE SWISS FRANC. WITHOUT THESE UNSPECIFIED CHANGES, FOURCADE SAID THE GOF WOULD OPPOSE SWISS ENTRY INTO THE SNAKE.

3. DUTCH FINANCE MINISTER DUISENBERG WAS AGAINST ADDING THIS NEW CONDITION TO SWISS ENTRY. DUISENBERG FAVORED SWISS ENTRY AND THOUGHT THE TECHNICAL REQUIREMENTS HAD ALREADY BEEN WORKED OUT. FRG FINANCE MINISTER APEL ALSO INDICATED SUPPORT FOR SWISS ASSOCIATION WITH THE SNAKE. THE DUTCH TOOK THE POSITION THAT IF FRANCE OPPOSED SWISS ENTRY, THE DUTCH WOULD REQUIRE FORMAL EC

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FINANCE COUNCIL ACTION ON THE MODIFICATIONS TO THE SNAKE'S OPERATIONS THAT THE FRENCH PROPOSED. FOURCADE INDICATED THAT HE WAS AWAITING A GOF CABINET DECISION BEFORE ANNOUNCING FORMAL RE-ENTRY. (PRESS REPORTS INDICATE THAT THE FRENCH CABINET DECIDED ON JUNE 17 TO RE-ENTER THE SNAKE AT THE JULY 10 COUNCIL MEETING.) BY ASKING FOR A FORMAL COUNCIL DECISION ON THE PROPOSED OPERATIONAL

CHANGES TO THE SNAKE, THE DUTCH INTEND TO PUT PRESSURE ON THE FRENCH TO LIFT THEIR OPPOSITION TO SWISS ENTRY.

4. PERMDEL SOURCES INDICATE THAT IT IS POLITICALLY UNTENABLE FOR THE DUTCH TO TRY TO BLOCK IN THE COUNCIL THE ALREADY AGREED CONDITIONS FOR MODIFYING THE SNAKE OPERATIONS. FRG OFFICIALS HERE SAY IT IS NOT POSSIBLE TO FORCE THE FRENCH TO AGREE TO SWISS ASSOCIATION. RE-ENTRY IS A UNILATERAL DECISION FOR THE GOF TO MAKE AND IT IS PRIMARILY UP TO THE CENTRAL BANKERS TO WORK OUT THE SNAKE'S OPERATIONAL PROCEDURES. OFFICIALS HERE BELIEVE THAT ONCE THE FRENCH FORMALLY REJOIN ON JULY 10, EC DISCUSSIONS OF THE CONDITIONS FOR SWISS ASSOCIATION WILL BE REOPENED. OUR SOURCES DO NOT KNOW WHETHER FOURCADE'S SUGGESTION THAT THE SWISS MODIFY THEIR TAX LAWS IS A STRONGLY HELD VIEW, WHETHER IT IS PRIMARILY A PLOY TO KEEP THE SWISS OUT OF THE SNAKE, OR WHETHER IT IS A NEGOTIATING TACTIC.

5. IT IS NOT CLEAR WHAT ACTION THE COUNCIL WILL TAKE ON JULY 10 REGARDING THE PROPOSED CHANGES IN THE SNAKE'S OPERATIONS. THE COMMISSION PROPOSED SUBMITTING TO THE COUNCIL A DECISION TO ADOPT THESE CHANGES. SEVERAL FINANCE MINISTERS OBJECTED TO THIS PROPOSAL SAYING THAT SUCH CHANGES WERE NOT THE RESPONSIBILITY OF THE COUNCIL. MOST OBSERVERS BELIEVE, HOWEVER, THAT THE COUNCIL ON JULY 10 WILL JUST TAKE NOTE OF THE CENTRAL BANK GOVERNORS' REPORT.

6. SWISS OFFICIALS HERE WERE SURPRISED AT FOURCADE'S NEW REQUEST. IN BILATERAL DISCUSSIONS THE FRENCH
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HAVE VAGUELY MENTIONED SUCH CHANGES BUT THEY WERE NOT CITED AS PRE-CONDITIONS. SWISS OFFICIALS HERE SAY THE GOS IS ADAMANTLY OPPOSED TO LINKING MODIFICATIONS OF ITS BANK SECRECY AND TAX LAWS TO ASSOCIATION WITH THE SNAKE. THEY CONFIRM CURRENT PRESS ARTICLES THAT THE GOS HAS BEEN DISCUSSING WITH KEY PRIVATE BANKS THE POSSIBLE ELIMINATION OF SWISS NUMBERED ACCOUNTS. THIS MAY HAVE THE EFFECT OF INHIBITING SOME CAPITAL FLOWS BUT SWISS OFFICIALS SAY THERE IS NO CONNECTION BETWEEN THESE DISCUSSIONS AND THE ISSUE OF SWISS ENTRY. IN FACT, SWISS OFFICIALS HERE SAY THAT THE GOS FINDS FOURCADE'S REQUEST "TOTALLY UNACCEPTABLE" AND THE GOS HAS SENT INSTRUCTIONS NOT TO DISCUSS THIS REQUEST WITH THE FRENCH.

7. THE SWISS HAVE TOLD THE EC CENTRAL BANK GOVERNORS THAT THEY ARE PREPARED TO INTERVENE MASSIVELY TO PREVENT THE SWISS FRANC FROM APPRECIATING AGAINST THE DOLLAR. SWISS OFFICIALS HERE INDICATE THAT IF NO ADDITIONAL CONDITIONS ARE RAISED, THE GOS IS NOW PREPARED TO BECOME ASSOCIATED WITH THE SNAKE.

8. COMMENT. THE FRENCH REALIZE THE SWISS ARE OPPOSED TO THE REQUIREMENT THAT THEY CHANGE THEIR LAWS AFFECTING CAPITAL INFLOWS. DESPITE THE DESIRE OF SOME SNAKE MEMBERS FOR THE SWISS TO ENTER, THE EC IS NOT LIKELY TO FORCE THE ISSUE WITH THE FRENCH. FOR THIS REASON, THE SWISS PROBABLY FACE SOME DIFFICULT NEGOTIATIONS BEFORE THEY ARE INVITED TO BECOME ASSOCIATED WITH THE SNAKE. THE SWISS NOW APPEAR READY TO JOIN BUT THEY ARE NOT GOING TO PRESS THE ISSUE. FROM OUR SOUNDINGS HERE, IF THEY HAD TO CHOOSE, THE SWISS WOULD PREFER TO STAY OUT OF THE SNAKE RATHER THAN CHANGE THEIR BANK SECRECY AND TAX EVASION LAWS. END COMMENT. GREENWALD

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